ZIMBABWE

In 1998, the U.S. trade deficit with Zimbabwe was $34 million, a decrease of $23 million from 1997. U.S. merchandise exports to Zimbabwe were $93 million, an increase of $11 million from the level of exports in 1997. Zimbabwe was the United States' 113th largest export market in 1998. U.S. merchandise imports from Zimbabwe were $127 million, down $12 million from 1997. U.S. foreign direct investment in Zimbabwe in 1997 was $129 million.

IMPORT POLICIES

Zimbabwe's economy, including its tariff regime, began a transition in 1991 from a highly controlled, Marxist-modeled, statist system to a more open, market-based economic system. During the first phase of its structural adjustment program, which ended in 1995, Zimbabwe abolished quantitative restrictions in favor of a tariff-based trading system. In early 1996, Zimbabwe undertook a comprehensive review and rationalization of its tariff policies and rates with substantial world bank input and the cooperation of the Confederation of Zimbabwe Industries (CZI). A new tariff regime, effective March 1, 1997, lowered duties on raw materials and other inputs, thereby removing in most cases the previous anomaly of higher duties on raw materials than on finished products. Raw materials now incur a duty rate of 5 to 15 percent, though additional import surcharges are also very likely to be applied.

In response to the significant slide of the Zimbabwe dollar against foreign currencies which began in August 1998, the Ministry of Finance announced on September 25, 1998, an increase in import tariffs ranging from 20 to 100 percent. Generally the higher duties are applied to luxury items and goods for which domestically produced substitutes exist. The list of targeted goods includes furniture, bicycles, motor vehicles, electrical and electronic goods, shoes, carpets and building materials.

Examples of the new tariffs and duties drawn from the customs and excise amendment notice Number 12 of 1998 include:

-- duty on edible vegetables increased from 40-60 percent to 60-80 percent;
-- these same rates apply to edible fruits, as well as coffee and tea;
-- duty on cereal flours was increased from 30 to 60 percent;
-- duty on prepared cereals was increased from 40 to 80 percent;
-- fruit juices and aerated water now attract 85 and 82.5 percent duty respectively, and Zimdollar $10/liter and 22.5 percent excise duty respectively;
-- imported wines attract 95 percent duty and $2.50/liter excise tax;
-- cigarettes are charged 100 percent duty and 80 percent excise;
-- perfume is charged 80 percent duty, up from 40 percent;
-- duty on footwear increased from 30 to 65 percent;
-- ceramic products are charged 80 percent duty, up from 40 percent;
-- pearls, precious and semi-precious stones are charged 70 percent duty, up from 15 percent;
-- air conditioning units previously at zero now attract 40 to 90 percent duty and a surcharge of Zimdollar $200/unit;
-- electric stoves are charged 90 percent duty, up from 40 percent;
-- duty on passenger motor vehicles (buses) seating 20 or more persons increased from 25 to 50 percent duty, while on vehicles seating 19 or less (minibuses) duty rose from 40 to 80 percent;

-- duty on toys went from 30 to 70 percent;
-- duty on plastic or wooden furniture increased to 80 percent from 40 percent.

Duties for what are considered luxury goods that can be manufactured locally have increased on average by 100 percent. A tariff commission has been formed to look at cases where local manufacturers have been disadvantaged by the new tariff regime, though it meets only monthly and has a large and growing backlog.

These tariffs are on top of a 15 percent import surcharge applied to all incoming goods regardless of classification, which became effective on October 2, 1998. A narrow exemption from the tax exists for capital goods, such as manufacturing equipment and intermediate goods subject to further processing and re-export.

LACK OF INTELLECTUAL PROPERTY PROTECTION

Since independence, Zimbabwe has joined several international patent and trademark conventions. It is a member of the World Intellectual Property Organization, the Paris Convention for the Protection of Industrial Property (Stockholm text), and the Bern Convention for the Protection of Literary and Artistic Works (Rome text). However, some enforcement problems exist. Audio and videocassette piracy is the most widespread intellectual property issue in Zimbabwe, though the volumes involved are relatively small. While software bootlegging undoubtedly occurs by users, pirated software is rarely sold commercially.

Investment Promotion

On the investment side, the government has abolished import licensing, and established the Zimbabwe Investment Center (ZIC) which will potentially increase U.S. firms' access to the Zimbabwe market. Export processing zones (EPZ) and certain related tax concessions could boost foreign investment, but a trade performance requirement requires eligible companies to export at least 80 percent of output. Other benefits include a five-year tax holiday, duty-free importation of raw materials, no tax liability from capital gains arising from the sale of property forming part of the investment in designated processing zones, and duty-free importation of capital equipment for use in the EPZ.

However, problems have and continue to arise from the Department of Customs, which charges designated companies duties on exempted inputs and equipment. The EPZ Authority, operational since early 1996, approved 19 projects by the end of 1997. However, the economic slowdown and high inflation and interest rates have slowed or halted movement on startup and completion. Investors are also encountering difficulties in connecting to telecommunication services and water and electric utilities. Exporters of manufactured products will be able to take advantage of new tax incentives included in the 1999 budget. Those companies exporting at least 40 percent of their output will receive an 8 percent tax break while new companies exporting at least 50 percent will receive a 10 percent break.

SERVICES BARRIERS

The ban on local foreign currency-denominated bank accounts is an impediment for businesses with imports or exports. World-class professional services (consultancy, accounting, legal and others) are generally available within the country. Securing temporary employment permits for nationals of other countries is difficult, time-consuming and at times arbitrary, although the Embassy has had some success in this area in responding to individual problems. Recently some software companies have encountered difficulties with the importation of programs containing extensive graphics, as Zimbabwe customs deems them to be entertainment programs (subject to an 80 percent duty) and not computer software (subject to a 15 percent duty). There are currently no trade restrictions on electronic commerce. Again, corruption and a lack of uniform application of the law by customs officials continue to plague importers and users of imported goods or components.

INVESTMENT BARRIERS

The government has lifted some of its most onerous restrictions on foreign investment. It permits pre-independence investors to remit 100 percent of declared dividends and no longer imposes restrictions on local borrowing. In September 1995, the Reserve Bank of Zimbabwe (RBZ) began liberalizing blocked accounts, allowing repatriation of certain blocked funds (profits and dividends accrued on pre-1993 investments, corporate funds in Government of Zimbabwe external bonds, and accounts with authorized dealers.) In response to an approximate 40 percent devaluation of its currency in late 1997, Zimbabwe banned foreign currency-denominated bank accounts in December of that year. The ban has made financial and cash flow operations more difficult for firms with sizable import or export components and increased their exposure to foreign exchange risk. Although in late 1998 the reserve bank announced that it was studying a limited reintroduction of foreign hard currency accounts, an announcement has yet to be made. In addition, because of Zimbabwe's 1998 financial crisis, there is serious concern that the government may resort to the reimposition of foreign exchange restrictions or a fixed rate regime to prop up the local currency.

Zimbabwe has signed investment agreements with the Overseas Private Investment Corporation (OPIC) and the World Bank. Notwithstanding such commitments, Zimbabwe has yet to embrace the concept of national treatment or discontinue its sizable "reserved list" of sectors that are closed to all but domestic investors or foreign investors in joint ventures with local partners. Other problem areas remain. U.S. firms and various national governments, including those of the United States, Japan, Great Britain, France, Belgium, and Italy, have voiced strong complaints about the lack of transparency and fairness in the government’s tender process. Recently, multilateral institutions have also criticized the government tendering process and called for changes.

In one example, the government not only disregarded established tender procedures in the proposed privatization of the Hwange power generation facility, but also dismissed the responsible board for criticizing its unilateral decision and lack of transparency. Similar criticism about the lack of fairness in dealing with various energy and telecommunications tenders highlights the adverse impact these procurement procedures have on foreign investment. In another instance, when the U.S. and German Embassies protested the lack of transparency in a cellular tender award, the government canceled the award and reissued the tender, later won by a German company and U. S. subcontractor.

Another roadblock to foreign investment is chronic delay and a lack of transparency by the government in approving work permits for expatriate representatives of U.S. firms. In one example, a senior executive in a major U.S. corporation was denied renewal of his work permit purportedly on the basis of his age (63). However, the U.S. embassy has recently had some success in obtaining favorable results on work permit issues. Delay and lack of transparency are often also encountered in Reserve Bank of Zimbabwe approval of investments in both new and existing operations. In addition, corruption is a growing problem with little being done to address it.

With respect to land reform: the redistribution of large commercial farms to the landless and small-scale black farmers has long been a stated goal of the Zimbabwean Government, although little progress has been made in achieving it. However, during late 1997 and in 1998, president Mugabe has repeatedly used increasingly harsh rhetoric that some 1,461 commercial farms will be seized imminently and without compensation for redistribution.

The president's pubic declaration of a "settle now, pay later" policy flies in the face of agreements made with the international donor community at the September 1998 land reform conference in Harare.

Expropriation of land without immediate and fiari competiton would have a crippling effect on local and foreign investor confidence, and would seriously disrupt Zimbabwe's large and economically significant agricultural sector. In statements that reflect a troubling lack of consensus within government, senior ministers have adopted a decidedly more conciliatory tone than President Mugabe, stating publicly that the resettlement process will proceed in accordance with agreements made at the land donors' conference. To date, the government has made little progress on resettlement.

OTHER BARRIERS

Privatization

The Government of Zimbabwe has not had a well-defined privatization program, largely due to the absence of a single organizational entity with overall responsibility for the design and implementation of the program. However, the government has now approved the creation of an independent unit based in the President's office and charged with identifying the public enterprises to be privatized and expediting the process. A key stated goal of the is to increase black ownership of economic assets, via its privatization/indigenization program. The National Investment Trust (NIT) was set up to facilitate the participation of the economically deprived indigenous population in the privatization process, though funds budgeted for this purpose have never made it to the NIT. As an ad hoc solution, the government has forced the postal workers and national social security fund to warehouse shares on the NIT's behalf.

Zimbabwe's commitment to its stated privatization/indigenization policies has been called into question on several occasions. Critics assert that the implementation of these policies has been slow, uneven, and has tended to favor government friends and ruling party allies at the expense of independent black entrepreneurs. U.S. firms have also complained of official attempts to dictate their choice of local partners (a local partner is required in many reserved sectors) under the guise of indigenization enforcement.

As part of the ongoing commercialization/privatization program, all parastatals must now pay taxes and declare dividends. Zimbabwe has privatized several of its agricultural marketing boards. The cotton company of Zimbabwe (COTTO, formerly the cotton marketing board), and Dairibord Zimbabwe (DZL, formerly the Dairy Marketing Board) were partially privatized in 1997 through share flotations. The Zimbabwe Government has retained 25 percent of COTTO and 40 percent of Dairibord. The donor community and the multilateral financial institutions agree that Zimbabwe's record on privatization has been poor. Sustained pressure by these outside groups has brought few results. The IMF has made progress on privatization a condition for disbursal of additional tranches of its standby credit facility, but continued delays are expected.